

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 21, 2014, BOARD MEETING**

MEMBERS PRESENT:

Mike Sandal, Vice Chair
 Clarence Corneil, Parliamentarian, TFFR Board
 Lance Gaebe, Land Commissioner
 Mike Gessner, TFFR Board
 Adam Hamm, Insurance Commissioner (TLCF)
 Rob Lech, TFFR Board
 Kelly Schmidt, State Treasurer
 Yvonne Smith, PERS Board
 Cindy Ternes, WSI designee
 Tom Trenbeath, PERS Board

MEMBERS ABSENT:

Drew Wrigley, Lt. Governor, Chair

STAFF PRESENT:

Terra Miller-Bowley, Supvr Audit Services
 Eric Chin, Investment Analyst
 Connie Flanagan, Fiscal & Invt Op Mgr
 Bonnie Heit, Assist to the SIB
 David Hunter, ED/CIO
 Fay Kopp, Deputy ED/CRO
 Cody Schmidt, Compliance Officer
 Darren Schulz, Deputy CIO
 Susan Walcker, Invt Acct

OTHERS PRESENT:

Donald Anderson, Northern Trust
 Vikram Bhaskar, Grosvenor
 Elliott Donnelley, Novarca
 Jeff Engleson, Land Dept.
 Levi Erdmann, Land Dept.
 Paul Erlendson, Callan Associates
 Ashby Monk, Novarca
 Patricia Somerville-Koulouris, Northern Trust
 Claire Ness, Attorney General's Office
 Tim Porter, BND
 Bryan Reinhardt, PERS
 Michael Rose, Grosvenor
 Ed Schafer, former Governor of ND
 Marcel Staub, Novarca
 Thomas Welsh, Novarca

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, November 21, 2014, at the Brynhild Haugland Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 21, 2014, MEETING AS DISTRIBUTED.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO APPROVE THE OCTOBER 24, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

INVESTMENTS:

Asset/Performance Review - Mr. Hunter updated the SIB on the assets they manage on behalf of their clients as of September 30, 2014. Assets under management grew by approximately 19 percent or \$1.53 billion in the last year. The Pension Trust posted a net return of over 9.8 percent with gains of \$416 million. The Insurance Trust generated a net return of 5.3 percent with gains of \$198 million. The Legacy Fund's net return was 3.8 percent and increased by \$1.1 billion during the last 12 months. SIB client assets approximated \$9.6 billion at September 30, 2014, based on unaudited valuations.

Novarca Fee Study - Novarca representatives reviewed their background which is to assist pension funds, endowments, and foundations reduce/recoup excess fees paid to the financial industry. Novarca reviews portfolios, identifies areas for improvement, optimizes the cost structures, and monitors the savings. The firm reduces/recoups costs by striving to optimize the cost structures within the existing allocation and within the existing roster of investment managers, brokers, and custodians. The firm works on contingency and there are no upfront costs. The firm invoices only if and when savings are realized and fees come from what would have been paid to the financial industry. Staff recommended the SIB contract with Novarca to perform a comprehensive review of only the private equity strategies at this time.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND PROCEED WITH LEGAL COUNCIL THE NEGOTIATION OF LEGAL DOCUMENTATION TO INCLUDE A CONTINGENT FEE STRUCTURE AND STRICT TERMS OF CONFIDENTIALITY WITH NOVARCA.

AYES: MS. SMITH, COMMISSIONER HAMM, MR. GESSNER, COMMISSIONER GAEBE, MR. TRENBEATH, MR. CORNEIL, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, AND MR. LECH

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Callan Fee Study - Mr. Erlendson reviewed the results of Callan's fee study for fiscal year ending June 30, 2014. The fee study indicated results are favorable but there are areas where additional savings could be realized.

Mr. Hunter stated there are additional fee savings that will be reflected in the next fiscal year that have not yet taken affect which should improve the fee analysis.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN'S FEE STUDY REPORT.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Northern Trust Securities Lending - Representatives of Northern Trust reviewed the firm's security lending program and the steps which would need to be taken to implement a program for the SIB. Staff recommended the SIB approve implementation of the securities lending program as outlined by Northern Trust. Callan representatives reviewed securities lending options with the SIB at their October 24, 2014, meeting and recommended the SIB implement the common industry approach which is an 80/20 split as long as the program structure is an overnight intrinsic indemnified US Treasury REPO with the commensurate indemnity for operational and borrower default risk.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION TO MOVE FORWARD WITH THE LEGAL AGREEMENT PROCESS FOR THE NORTHERN TRUST SECURITIES LENDING PROGRAM.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, AND TREASURER SCHMIDT.

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Legacy & Budget Stabilization Fund Advisory Board - Mr. Hunter stated he met with the Legacy and Budget Stabilization Fund Advisory Board (LBSFAB) on October 28, 2014, and provided an investment update on the Legacy Fund and the Budget Stabilization Fund as of August 31, 2014. Mr. Hunter also reviewed the investment policy statements for both funds and also reviewed the Bank of North Dakota (BND) Match Loan CD Program and discussed the BND's request to increase the size of the Match Loan CD Program within the Budget Stabilization Fund. Mr. Hunter stated the LBSFAB recommended the SIB consider making available an additional \$50 million from the Budget Stabilization Fund for investment in the BND Match Loan CD Program. The LBSFAB also requested the Budget Stabilization Fund investment policy statement be reviewed by RIO to identify any possible provisions which may be in conflict with the recommendation. Following a review by legal counsel, two formats were composed in relation to the BND proposal. Mr. Hunter indicated both options are reasonable given the Legislative Council has stated the Budget Stabilization Fund is projected to increase by \$133 million in the next biennium. He also indicated the \$50 million increase is then deemed reasonable from a liquidity perspective as it will allow the three existing managers within the Budget Stabilization Fund (Babson Capital, JP Morgan, and the BND) to each represent approximately one-third share of the overall investment allocation.

The SIB took no action on the matter as the SIB's policy is to have investment policy statements approved by their respective clients prior to the SIB's consideration and implementation.

The next meeting of the LBSFAB has been scheduled for December 1, 2014, and Mr. Hunter will report back to the SIB, at their January 23, 2015, meeting.

The SIB recessed at 10:30 a.m. and reconvened at 10:37 a.m.

Grosvenor Infrastructure - Grosvenor representatives provided an update on their firm and personnel since Credit Suisse sold its Customized Fund Investment Group business unit to Grosvenor Capital Management in early January 2014.

Representatives also reviewed the Customized Infrastructure Strategies II Fund which they are currently seeking commitments. Staff recommended committing assets up to \$30 million of the Pension Trust and up to \$75 million of the Legacy Fund.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND COMMIT UP TO \$30 MILLION OF THE PENSION TRUST ASSETS AND UP TO \$75 MILLION OF THE LEGACY FUND ASSETS TO GCM GROSVENOR CUSTOMIZED INFRASTRUCTURE STRATEGIES II FUND SUBJECT TO SUCCESSFUL CONTRACT NEGOTIATIONS.

AYES: MR. TRENBEATH, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, AND MS. TERNES

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

MONITORING:

Callan Investment Review - Mr. Erlendson reviewed performance of the Pension Trust and the Insurance Trust for the quarter ending September 30, 2014.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN'S INVESTMENT MEASUREMENT SERVICE QUARTERLY REPORTS FOR THE PENSION TRUST AND INSURANCE TRUST FOR THE PERIOD ENDING SEPTEMBER 30, 2014.

AYES: MS. TERNES, MR. CORNEIL, COMMISSIONER HAMM, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. TRENBEATH, MR. LECH, MR. SANDAL, MS. SMITH, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

GOVERNANCE:

Legislative Update - Mr. Hunter stated investment updates were given on the Budget Stabilization Fund and Legacy Fund for the period ending August 31, 2014, to the LBSFAB on October 28, 2014. Staff also presented to the Employee Benefits Program Committee on October 29, 2014, and provided an overview of the SIB program/process, assets under management, and fiscal year activity.

Audit Committee Report - Mr. Hunter and Mr. Gessner updated the SIB on the SIB Audit Committee's activities for the period of July 1, 2013 to June 30, 2014.

CliftonLarsonAllen completed their audit of RIO's financial statements for the fiscal year ended June 30, 2014, and have issued an unmodified, clean, opinion.

Ms. Miller-Bowley updated the SIB on the preliminary review of the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitations Policies A-1 through A-11. Ms. Miller-Bowley stated Audit Services is satisfied with the Executive Director/CIO's compliance at this time and a full Executive Limitations audit is scheduled to begin in January 2015.

Mr. Gessner stated Ms. Karol Riedman has replaced Mr. Lonny Mertz on the Audit Committee. Ms. Riedman is the Chief Audit Executive for the Office of Internal Audit of the ND Department of Health.

Mr. Gessner also stated the State Auditor's Office will issue a Request for Proposal on November 28, 2014, to solicit proposals from qualified CPA firms for the financial audit of the Retirement and Investment Office. CliftonLarsonAllen has been conducting the audit for the past three years.

Mr. Gessner also indicated GASB 67 and 68 statements are being implemented and there will be more information shared with the SIB on how these statements affect the school districts who report to Teachers' Fund for Retirement (TFFR).

Mr. Gessner thanked staff for all of their work on the financial audit report to achieve the positive results from CliftonLarsonAllen.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE SIB AUDIT COMMITTEE ACTIVITIES REPORT WHICH ALSO INCLUDED RIO'S FINANCIAL AUDIT REPORT BY CLIFTONLARSONALLEN FOR THE FISCAL YEAR ENDED JUNE 30, 2014.

AYES: COMMISSIONER HAMM, MS. TERNES, MR. CORNEIL, MR. SANDAL, TREASURER SCHMIDT, MR. GESSNER, MS. SMITH, COMMISSIONER GAEBE, MR. LECH, AND MR. TRENBEATH

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

Investment Policy Statement Amendments - Mr. Hunter reviewed revised investment policy statements previously reviewed and approved by the clients for the Legacy Fund and the following PERS' Funds - PERS Main Plan, Job Service, Group Insurance Account, and Retiree Health Insurance Credit Fund.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED INVESTMENT POLICY STATEMENT FOR THE LEGACY FUND, AND THE FOLLOWING PERS' STATEMENTS - PERS MAIN PLAN, JOB SERVICE, GROUP INSURANCE, AND RETIREE HEALTH INSURANCE CREDIT FUND.

AYES: MR. LECH, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. TRENBEATH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, AND MS. TERNES

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY

PIMCO Update - Staff and SIB members - Treasurer Schmidt, Mr. Sandal, Ms. Smith, and Ms. Ternes met with PIMCO representatives on October 2, 2014, at the Retirement and Investment Office. Mr. Hunter and Mr. Schulz also conducted an on-site visit with PIMCO representatives at their headquarters in Newport Beach, CA. on November 6, 2014. Staff recommended that PIMCO remain on watch list status and also recommended no changes to existing mandates nor will they recommend PIMCO for any new mandates until they are comfortable with the internal changes at the firm.

The SIB concurred with staff recommendation and there was no action taken on the update.

Staff Update - Mr. Hunter introduced Mr. Eric Chin who joined the Retirement and Investment Office as an Investment Analyst effective November 10, 2014. Mr. Hunter stated the office is now fully staffed.

Mr. Corneil announced he has elected to resign from the Teachers' Fund for Retirement Board and the State Investment Board effective November 21, 2014. Mr. Corneil has been serving on the Teachers' Fund for Retirement Board since July 18, 2002, and the State Investment Board since September 17, 2004. Mr. Corneil thanked the leadership of RIO and the entire SIB and stated he has enjoyed serving the people of the State of North Dakota and will miss the educational elements that come with serving as a trustee. Mr. Sandal and the SIB thanked Mr. Corneil for his service and stated they will miss him.

OTHER:

Next scheduled meetings:

SIB Meeting - January 23, 2015, 8:30 a.m. - Workforce Safety & Insurance

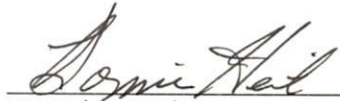
SIB Audit Committee Meeting - February 27, 2015, 1:00 p.m. - Workforce Safety & Insurance

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 12:25 p.m.



Mr. Mike Sandal, Vice Chair
State Investment Board



Bonnie Heit
Assistant to the Board